M E M O R A N D U M

TO: State Agencies

FROM: OA, Division of Accounting

DATE: March 8, 2002

RE: FA/PV Link and GAAP Depreciation Modifications

Effective February 25, 2002 two separate modifications were made to the SAM II Financial System which affect fixed asset processing. The modifications include the addition of new fields on the Fixed Asset Acquisition document (FA), Fixed Asset Betterment document (FB), Fixed Asset Modification document (FC), and the Fixed Asset History Inquiry (FHIS). The modifications are explained below. These modifications did not affect the Fixed Asset Disposal document (FD).

FA/PV Link Modification:

The FA/PV Link modification added the Reference Document field to the FA, FB and FC documents as well as the FHIS. The Reference Document field is used to record the PV document number that purchased a fixed asset. The purpose of adding this field is to provide an audit trail. When a fixed asset object code is used on a payment document, the system generates a FA shell. The Reference Document field on the FA shell is automatically populated with the PV number that created it.

As a part of this modification, the Reference Document field <u>or</u> the Funding Source field is required. An overrideable error message is issued when the Reference Document field and the Funding Source field are both blank. The Funding Source field should be used for assets that do not have a PV associated with them, such as donated or constructed assets. For assets that are constructed, the project number should be entered in the Funding Source field. Once the FA, FB or FC document is accepted into SAM II, the Reference Document will appear on the FBT1 (Fixed Asset Betterment Inquiry) table.

In addition to the Reference Document field, the Useful Life field has been added to the FHIS.

GAAP Depreciation Modification:

The GAAP Depreciation modification was made to enable the system to calculate depreciation according to Generally Accepted Accounting Principles (GAAP) when changes are made to the depreciation method, useful life, salvage value, and/or asset value. These changes are entered using a FC document. A new field, "Depreciation Change Basis", was added to the FC document. The user will be required to choose either "D – Default (Prospective)" or "R – Restatement" in the Depreciation Change Basis field when any field associated with the calculation of depreciation is changed. The Depreciation Change Basis field has also been added to FHIS.

The Default (Prospective) treatment of depreciation will calculate depreciation for the current depreciation cycle and onward using the changed fields and residual values (as of the effective date of change) for asset value and useful life. Residual asset value is the book value as of the effective date of change. Residual useful life is the remaining life of the asset as of the effective date of change. The effective date of change is the day after the most recent depreciation cycle. Prospective treatment is used when there is a change in accounting estimate. Examples are changes in useful life and salvage value.

The Restatement treatment of depreciation will recalculate depreciation using the current values after the changes are applied. Residual values are not used in recalculating the depreciation. During the first depreciation cycle following the change, depreciation up through the last depreciation cycle will be recalculated with the difference between that figure and the prior accumulated depreciation recorded as *"Prior Period Depreciation Adjustment"*. Restatement is used when there is a change in accounting principle. An example is changing the depreciation method from "straight-line" to "sum-of-the-years digits".

- If the prior period depreciation adjustment amount is greater than the current accumulated depreciation, the system generates the following entries:

  > *DR* Prior Period Adjustment (3266)
  >   *CR* Accumulated Depreciation

- If the prior period depreciation adjustment amount is less than the current accumulated depreciation, the entries generated are:

  > *DR* Accumulated Depreciation
  >   *CR* Prior Period Adjustment (3266)

- Current deprecation will be recorded as follows:

  > *DR* Depreciation Expense
  >   *CR* Accumulated Depreciation

If you have any questions regarding these modifications, please contact Pat Freeman at (573) 751-9401, freemp@mail.oa.state.mo.us or Lynn Cannon at (573) 751-1899, cannol@mail.oa.state.mo.us.